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SUBJECT: SCENESETTER FOR PEACE CORPS DIRECTOR TSCHETTER'S VISIT TO  
THE PHILIPPINE

SENSITIVE BUT UNCLASSIFIED

1. (SBU) Welcome to the Philippines! You are coming at an interesting and challenging time. Increasing food and energy prices have put the economy and the social situation under strain, increasing the incidence of poverty. Legal challenges before the Philippine Supreme Court aborted the long-awaited signing of a memorandum of understanding (MOA) between the Philippine government and the Moro Islamic Liberation Front (MILF), triggering conflict between government forces and Moro rebels in a number of communities in the southern Philippines. The annual cycle of weather-related disasters is also well underway bringing typhoon-related crop damage to several regions. Your visit presents an opportunity to highlight the spirit of volunteerism and the role of the Peace Corps at a time when President Gloria Macapagal-Arroyo has repeatedly called for the government, private sector, and development partners to work together to alleviate poverty, overcome disaster, contribute to development, and promote peace.

#### Activities in a Nutshell

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2. (U) During your visit, you will be briefed by the Mission Country Team; meet with Secretary of Foreign Affairs Alberto Romulo; pay a courtesy call on President Gloria Macapagal-Arroyo; and participate in a number of media events. You will also fly to Dumaguete City (the capital city of Negros Oriental in the Central Philippines) to meet with Peace Corps officials and volunteers and view a USAID wastewater treatment project.

#### The Economy in Brief

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3. (U) The United States is the Philippines' largest trading partner, with over \$17.1 billion in two-way merchandise trade in 2007. Major U.S. exports include electronics and agricultural products. The U.S. is also the largest investor here, with over \$6.6 billion in equity. The Philippine economy grew by 7.3% in 2007, the fastest pace of growth in over three decades. Gross Domestic Product (GDP) growth is expected to slow in 2008, but still reach a respectable 5-5.5%, spurred in part by a resilient service sector (particularly a booming Business Process Outsourcing industry) and strong overseas workers remittances (expected to hit \$16 billion in 2008, more than 11% of Philippine GDP).

4. (U) Record economic growth and an improved image moved the Philippines up five places to 40th in the latest World Competitiveness Yearbook rankings, its best performance since it joined the listing over a decade ago. President Arroyo has an impressive reform agenda -- privatizing the electric power sector, building infrastructure, increasing education and health funding, and reducing business red tape -- but still faces significant hurdles, particularly to improving the investment climate and

addressing corruption.

15. (U) There has been limited progress over the past decade in reducing poverty and addressing the inequitable distribution of incomes. According to recently released poverty statistics, poverty increased between 2003 and 2006 to engulf a third of the population.

Spurred by surging food and fuel prices, inflation has accelerated this year, reaching 12.7% in July, a seventeen-year high. High inflation will push even more Filipinos into poverty, challenging the government to balance subsidies and hunger alleviation programs for the poor against fiscal consolidation goals.

16. (SBU) Socio-economic development in the Philippines is uneven and poverty is characterized by wide disparities across regions and populations, even during periods of high economic growth. Poverty is especially severe in rural areas. Most of the lagging regions and provinces are in Mindanao while the frontrunners are in Luzon island. Overall, 47% of Mindanao's population subsisted below government-established poverty thresholds during 2006, much higher than Luzon's 28% poverty incidence. While Mindanao features some of the country's more progressive cities and municipalities, human development indices of some of Mindanao's most depressed provinces approximate the world's poorest countries (such as Ghana, Sudan, and Zimbabwe).

#### Millennium Development Goals (MDGs)

17. (U) The Philippines has made progress in reducing extreme hunger and expects to reduce the incidence of food-poor Filipinos from 14.6% (2006) to its 10.2% MDG target by 2015. Although hopeful, the country is farther off reducing the overall incidence of poverty (which also includes being able to afford basic non-food

requirements) from nearly 33% (2006) to 22.7% by 2015. Although progress across regions is uneven, the Philippines is moving towards achieving national MDG targets involving, among others, child nutrition and child mortality; gender equality; combating HIV/AIDS and malaria; access to clean water and sanitation facilities; and selected indicators on environmental sustainability.

18. (U) However, progress has been slow in other important MDG goals and the Philippines is unlikely to meet MDG targets on universal primary education and 100% elementary completion rates; a 100% literacy rate for Filipinos in the 15-24 year-old age bracket; maternal mortality; access to contraceptives (reflecting resistance from the Catholic Church); and the proportion of households (particularly slum dwellers) with access to secure land tenure. The enrollment ratio in primary education stood at 83.2% in 2006, lower even than in 1990 (84.6%). The ratio of pupils who started and completed elementary education improved only modestly between 1990 (69.7%) and 2006 (73.4%), which makes it improbable that the Philippines will achieve the 100% target by 2015. The literacy rate of the 15-24 year old segment of the population is no better currently than it was in the early 1990s (96.6%), not a good prognosis for achieving 100% literacy for this age group by 2015.

#### The Political Situation

19. (SBU) President Gloria Macapagal Arroyo assumed the Presidency in 2001 after a "people power" movement swept out her predecessor, whom she subsequently pardoned after he was convicted of corruption. She is a tenacious leader who has faced a series of challenges to her rule, including unsuccessful impeachment efforts and low-level military coup attempts. The President's political position improved after May 2007 elections gave her allies a large majority in the House of Representatives, decreasing any impeachment threat. With two years left in her term, the President appears intent on establishing her legacy, with a focus on the economy and jobs, infrastructure, and seeking stability and peace in Mindanao.

110. (SBU) The Mindanao peace process suffered a major setback with the aborted signing of the memorandum of agreement on ancestral domain between the Philippine government and Moro Islamic Liberation Front (MILF) on August 5 in Kuala Lumpur. Acting on petitions of local government officials opposed to the expansion of the Muslim territory, the Supreme Court issued a temporary restraining order

against the signing of the agreement and in response, the government has decided to review the terms of the agreement. Disappointed with the government's failure to conclude the agreement, the MILF -- in violation of the ceasefire agreement -- initiated a series of attacks in several communities in central Mindanao. The attacks have killed at least 50 and displaced some 70,000 civilians and President Arroyo ordered the Armed Forces to "defend every inch of territory" against the MILF forces. The Philippine military has responded decisively, but with discipline. MILF military capability has been degraded and civilian casualties have resulted in a public and political backlash against the MILF. Nevertheless, the government has reiterated its commitment to pursuing the peace process, once peace and order are restored.

#### Human Rights Issues

¶11. (SBU) President Arroyo has consistently expressed her commitment to resolving the complex problem of extra-judicial killings and has taken several steps in this direction. With increased domestic and international pressure, the number of extra-judicial killings decreased dramatically in 2007, but more still needs to be done. While many of these deaths and disappearances are more likely attributable to local disputes than to military or police action, it is clear that the government needs to do more to ensure that these crimes are fully investigated and that responsible parties -- whether or not they are connected to the military or police -- are brought to justice. The problem is closely related to a judicial system which is inefficient and strained beyond its capacity. Problems such as violence against women, abuse of children, child prostitution, child labor, trafficking in persons, and ineffective enforcement of worker rights are also common.

#### Challenges

¶12. (U) Attaining development objectives involves key, cross-cutting issues, principally: addressing wide disparities across regions; curbing high population growth; improving agricultural productivity; accelerating implementation of basic education and health reforms; boosting infrastructure; harnessing

fiscal resources; strengthening the capacity of local government units; effective law enforcement; improving the investment climate; promoting transparency and accountability; addressing peace and security issues; and strengthening public-private-donor partnerships. President Gloria Macapagal-Arroyo has called repeatedly for unity and strong partnerships as the country grapples with global economic challenges and domestic political concerns with limited resources. Your visit to the Philippines provides a timely opportunity to reiterate continued U.S. government support for development and poverty reduction efforts, to promote volunteerism, and to highlight the U.S. Peace Corps' role in these areas.

Kenney